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FM AMEMBASSY KUALA LUMPUR

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RUCNASE/ASEAN MEMBER COLLECTIVE

RUEHZN/ENVIRONMENT SCIENCE AND TECHNOLOGY COLLECTIVE

RHEBAAA/DEPT OF ENERGY WASHINGTON DC

RUEKJCS/SECDEF WASHINGTON DC

RHEHNSC/NSC WASHDC

UNCLAS SECTION 01 OF 03 KUALA LUMPUR 000615

SENSITIVE

SIPDIS

STATE FOR EAP/MTS AND OES

OES FOR BHOWARD AND TSCOTT

DOE FOR EMCGINNIS, DWELLING AND MSCOTT

E.O. 12958: N/A

TAGS: PGOV EAGR MY

SUBJECT: Malaysia Scenesetter for DOE DAS Secretary Ed McGinnis and DAS Craig Welling

¶11. (SBU) SUMMARY: Embassy Kuala Lumpur looks forward to your July 21-23 visit as an opportunity to advance important and continuing discussions with the government of Malaysia (GOM) on nuclear energy and the Global Nuclear Energy Partnership (GNEP). The visit will allow you to explore Malaysia's plans to develop nuclear energy under its new National Energy Policy (NEP). The GOM is studying the possibility of using nuclear energy after 2020 as a form of "clean energy." An overview of Malaysia's political environment, energy sector, science and technology arena, nuclear energy development, U.S.-Malaysia economic ties and security partnership, and Malaysia-Iran relations follows. END SUMMARY.

POLITICAL SCENE

¶12. (SBU) On March 8, Malaysia held national elections in which the Barisan Nasional (BN) coalition suffered its worst performance since 1969, losing its two-thirds majority in parliament and control of five states to the opposition. Prime Minister Abdullah Ahmad Badawi faces a ground swell of dissatisfaction even within his own party. Despite calls for his resignation, PM Abdullah announced that he plans to remain in office until 2010, at which time he would hand over to Deputy Prime Minister Najib. Abdullah's dominant UMNO party begins a five-month election process on July 17, a process that is focused on the ongoing leadership struggle in the party.

¶13. (SBU) The government must contend with a resurgent opposition led by former Deputy Prime Minister Anwar Ibrahim, who has pledged to bring down the BN government by mid-September through defections by BN parliament members. The BN struggle with the opposition hit high gear as an aide linked to government officials lodged a criminal complaint of sodomy against Anwar, while Anwar released information implicating DPM Najib in a high profile murder case. Against a heated political backdrop, and insinuations that the U.S. supports Anwar, the GOM took umbrage at the USG's public statement that Malaysia should follow the rule of law in pursuing Anwar's case, leading to a letter from the Malaysian Foreign Minister to Secretary Rice decrying our "interference." Malaysia's political arena thus remains highly sensitive and fluid.

ECONOMIC TIES

¶14. (SBU) The Malaysian and U.S. economies are closely linked with strong trade and investment ties. The U.S. has large investments in Malaysia's energy, electrical and electronic, and manufacturing sectors. The U.S. launched free trade agreement (FTA) negotiations with Malaysia in mid-2006. The U.S.-Malaysia FTA negotiations will enter its 8th Round in Washington D.C. this week (July 14 to 18). Areas of particular concern include government procurement, intellectual property rights (IPR), and services liberalization, especially in the financial sector.

SCIENCE AND TECHNOLOGY AGREEMENT

¶15. (SBU) Malaysia has one of the strongest high technology sectors in the region. The U.S. is in the process of negotiating both a bilateral U.S.-Malaysia science and technology (S & T) agreement and a multilateral U.S.-ASEAN S & T agreement. It is anticipated that both agreements will be concluded by the end of this year. However, IPR and customs duties remain areas for further negotiation. High tech U.S. firms with a presence in Malaysia include Dell, Microsoft, Agilent Technologies, Finisar, and Western Digital.

ENERGY SECTOR

¶16. (SBU) The Malaysian federal government holds the rights to the nation's petroleum reserves through its national company Petronas (Petroleum Nasional Berhad), established in 1974 to execute, oversee and chart the course of the sector's development. Malaysia's oil output has grown from 80,000 barrels per day (bbl/d) in 1974 to approximately 695,278 bbl/d in 2007.

¶17. (SBU) Malaysian production of liquid natural gas (LNG) continues to grow, with the nation now ranking as the world's third largest exporter. In 2007, Malaysia produced 5,854 standard cubic feet of LNG per day. U.S. petroleum companies operating in Malaysia are ExxonMobil, Murphy Oil, ConocoPhillips, and Hess, with Hess operating in the Joint Development Area between Malaysia and Thailand.

¶18. (SBU) Petronas contributes approximately 36.5% percent of the federal government's revenue in 2007. According to Oil & Gas Journal, Malaysian proven oil reserves have increased from 4.6 billion barrels in 1996 to 5.35 billion as of the end of 2007.

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Proven gas reserves are 75 trillion cubic feet. As production tapers off from offshore wells in shallow waters, Petronas is focusing more on Malaysia's gas reserves and moving overseas with operations in 29 countries.

¶19. (U) The Malaysian government significantly reduced fuel subsidies on June 5, raising fuel prices for gasoline by 40.6% and diesel by 63.3% overnight. Regular gasoline increased to RM 2.70 (US\$ 0.84) per liter while diesel grew to RM 2.58 (US\$ 0.81) per liter.

NUCLEAR ENERGY

¶10. (U) The Malaysian government recently announced that it is prepared to develop renewable energy, including nuclear energy, under a new National Energy Policy. Deputy Minister of Energy, Water and Communications Datuk Joseph Salang Gandum stated that the GOM is studying the possibility of using nuclear energy by 2010 as it is currently regarded as a "clean energy" source.

¶11. (SBU) Malaysia has two institutes that work closely with the country's nuclear equipment and facilities: the Malaysian Nuclear Agency (MNA) and the Atomic Energy Licensing Board (AELB). The Malaysian Nuclear Agency was first established in 1972 as the Center for Application of Nuclear Malaysia (CRANE) and has since undergone several name changes. In 2006, it was renamed as the MNA with the mandate to introduce and promote the application of nuclear science and technology for national and sustainable development. To do so, MNA operates four programs: research and technology development, technical support, commercialization and technology planning and management services. Under the Ninth Malaysia Plan (9MP), the MNA concentrates its R & D into six priority areas: advanced alternative energy, biotechnology, nanotechnology, information and communication technology (ICT), advanced materials, and advanced manufacturing sectors. (Note: On June 23 Minister of Science, Technology and Innovation Maximus Ongkili recently declared that Malaysia plans to place greater emphasis on developing its biotechnology industry. End Note.) Located 50km (approx. 31 miles) outside of Kuala Lumpur, MNA is strategically located near higher learning institutions, AELB, the Federal Administrative Center in Putrajaya (the de facto capital), and the Multimedia Super Corridor in Cyberjaya.

¶12. (SBU) The Prime Minister's Department established the Atomic Energy Licensing Board in 1985 in order to enforce the atomic energy licensing act (Act 304), which legislates the safe and peaceful use of radiation and nuclear technology. Since 1990, the Ministry of Science, Technology and Innovation (MOSTI) has overseen AELB. Under Act 304, AELB has the responsibility to advise the GOM on the development of nuclear technology; to exercise and supervise the production, application, and use of atomic energy and related matters; to establish, maintain and develop scientific and technical cooperation with other entities on nuclear matters or atomic energy; and to perform obligations arising from agreements, conventions, or treaties relating to nuclear matters or atomic energy where Malaysia is a party. Dato Abdul Aziz Raja Adnan has served as the current Director General of AELB for nearly ten years. (Note: DG Raja's current term will expire within the next few months. It is uncertain whether his term will be renewed. End Note.) AELB is located 5km (3.1 miles) down the road from MNA.

¶13. (SBU) Several individuals from the National Nuclear Security Administration (NNSA) and the DOE's Global Threat Reduction Initiative (GTRI) have met with officials at AELB within the last year. In March 2008, Dr. Ken Apt from the International Nuclear Safeguards and Engagement Program (INSEP) led a three person team which met with DG Raja to discuss future USG-Malaysia collaboration on nuclear infrastructure preparedness and exchanges between AELB and subject-matter experts (SMEs) at U.S. National Laboratories. In April 2008, Mr. Greg Herdes from the Pacific Northwest National Laboratory also spoke with DG Raja regarding the GTRI and to conduct a site inspection of a facility possessing Category 1 radioactive sources. Mr. Herdes will return to AELB in August 2008 with a team of five individuals from various U.S. national laboratories to lead a workshop on physical protection and security management of radioactive sources. The team will also discuss future cooperation on physical protection upgrades for sterilization irradiators and radioactive sources.

MULTI-FACETED SECURITY RELATIONSHIP

¶14. (SBU) Malaysian leaders have taken a strong stance against terrorism and the United States is working closely with the GOM to fight this global threat. The U.S. and Malaysia also share a strong military-to-military relationship with numerous exchanges, training,

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joint exercises and visits. Although we are not treaty allies, the U.S. and Malaysia collaborate closely in the military sphere. The U.S. spends about one million dollars a year to train Malaysian military personnel, and U.S. military personnel train in Malaysia's jungle warfare training center. Our militaries also conduct a series of bilateral exercises in the area during the year. Our military-to-military relations have improved further in recent years and this close relationship greatly contributes to the overall peace and stability of the region.

¶15. (SBU) Malaysia has signed the International Atomic Energy Agency Additional Protocol and has sent observers to Proliferation Security Initiative exercises, but has been reluctant to undertake efforts in other related areas. Malaysia does not yet have an export control regime. Following revelations in 2003/2004 that a Malaysian company was part of the A.Q. Khan black market network, Malaysia began drafting export control legislation. The U.S. has provided technical advice, but the draft legislation remains pending.

MALAYSIAN-IRAN RELATIONS

(SBU) Malaysia retains friendly relations with Iran, including a burgeoning commercial relationship. Malaysia has lent rhetorical support to Iran's right to develop "peaceful" nuclear technology, while maintaining that it will respect UN decisions on Iran, including sanctions regimes. Nonetheless, Malaysia has not yet submitted its report to the UN on implementation of UNSC 1737 and 1747 sanctions or taken other discernable actions to implement UN restrictions on Iran. In contravention of UN sanctions, the Malaysian Foreign Ministry approved Iran's participation in a defense sales exhibition held in April 2008 in Kuala Lumpur; the Defense Ministry rescinded the approval after the event began.

Malaysia has worked actively with its NAM partners to support Iran's position before the IAEA. The U.S. sanctioned one Malaysian freight forwarder under the Iran Non-Proliferation Act for its role in shipping proscribed materials to Iran. Another Malaysian company reportedly has signed an agreement for a multi-billion dollar investment to develop two large natural gas fields in Iran and has finalized a joint venture to build an oil refinery in Malaysia with 30 percent financing from the National Iranian Oil Company. Iran is expected to be the primary supplier of crude for this refinery as well as a buyer of refined products.

SUGGESTED THEMES FOR CONSIDERATION

¶16. The following themes are provided for your reference during your meetings in Malaysia:

-- Recognize Malaysia as a regional leader in the research and development of biotechnology, nanotechnology, advanced alternative energy, advanced materials, ICT, and advanced manufacturing.

-- Encourage Malaysia to become an observing country with the potential to become a partner nation in the Global Nuclear Energy Partnership.

-- Recognize Malaysia as a partner of the U.S. in terms of promoting peaceful and safe uses of technology, including nuclear energy.

-- Urge Malaysia to recognize that appropriate export controls are an important aspect of building confidence related to transfer of nuclear technology.

¶17. We hope you will enjoy your visit to Malaysia and look forward to ensuring that your visit will be a success.

KEITH